

ARGENTINA
INFLATION REPORT

ECONOMIC SECTION

U.S. EMBASSY

BUENOS AIRES

February 2004

SUMMARY

The official Consumer Price Index (CPI) was 0.1 percent higher in February 2004, which is lower than the 0.4 percent forecasted by BCRA's survey on market expectations. This brings 12-month inflation to 2.2 percent, suggesting continued price stability. Average nominal salaries increased 2.61 percent in January 2004 over December 2003 and the purchasing power of salaried workers in January 2004 was an average 8.4 percent higher than what it was in January 2003. The GOA calculated in May 2003 that 54.7 percent of the population lived below the poverty line. The GOA's inflation projection in the 2004 budget bill is 10.5 percent. The Central Bank presented a new monetary program whose inflation target lies between 7 and 11 percent for 2004. CPI inflation predictions for 2004 by 12 well-known think- tanks average 7.1 percent, down from 7.3 percent a month ago. New poverty figures are expected to be released on March 25.

THE CONSUMER PRICE INDEX

The official Consumer Price Index (CPI) was 0.1 percent higher in February than in January 2004, which is lower than the 0.4 percent forecasted by BCRA's survey on market expectations. This brings 12-month inflation to 2.2 percent, suggesting continued price stability. Prices of Goods and Services increased 0.1 percent in January. The official CPI only measures inflation in the Greater Buenos Aires urban area.

Housing and Basic Services was the CPI component with the highest monthly price rise, 0.8 percent, followed by Health Services with 0.4 percent. The rise in Housing and Basic Services prices is mainly explained by the increase in repair and general expenses, which rose 2.1 percent. Miscellaneous Goods and Services, Clothing, and

Entertainment were the three CPI components with the greatest increases since February 2003, with 5.5, 4.9 and 4.0 percent, respectively. Clothing prices decreased 2.1 percent in February 2004, while Miscellaneous Goods and Services, and Entertainment decreased 0.1 percent and 0.5 percent in the same time period, respectively. According to analysts, the decrease in Clothing prices was due to summer sales.

TABLE ONE
CONSUMER PRICE INDEX (1999=100)

YEAR	END OF PERIOD	PCT CHG PREV YR
1998	101.7	0.7
1999	99.9	-1.8
2000	99.1	-0.7
2001	97.6	-1.5
2002	137.6	41.0
2003	142.6	3.7

	AVERAGE	PCT CHG PREV MO
2003		
JAN	139.4	1.3
FEB	140.2	0.6
MAR	141.0	0.6
APR	141.1	0.1
MAY	140.5	-0.4
JUN	140.4	-0.1
JUL	141.0	0.4
AUG	141.0	0.0
SEP	141.1	0.0
OCT	142.0	0.6
NOV	142.3	0.2
DEC	142.6	0.2

2004

JAN	143.2	0.4
FEB	143.3	0.1

Source: National Bureau of Statistics and Census
(INDEC).

POVERTY AND DESTITUTION LEVELS

INDEC also publishes a monthly estimate of the value of a "total consumption basket" and a "food consumption basket." They are based on the minimum nutritional requirements and other consumption habits of people of different ages. These estimates determine the poverty line and the destitution line, respectively. The poverty line was valued at ARP 718.46 (USD 245.36) and the destitution line was valued at ARP 328.07 (USD 112.35) for a family of four in February 2004. A family of four is defined as a man and a woman in their thirties, an eight-year-old girl and a five-year-old boy. The peso value of the poverty line increased 0.3 percent in February over January 2004, but it has decreased 1.2 percent since February 2003. In May 2003, when the Kirchner government took office and when a national survey on household incomes was performed, 54.7 percent of the total urban population was below the poverty line.

The latest survey on households was performed in October 2003, but results have not been released yet. The peso value of the destitution line increased 0.3 percent in February over January 2004, but decreased 1.2 percent from February 2003. The number of people below destitution line was 26.3 percent of the total urban population in May 2003.

Econoffs estimate that the increase of people below the poverty line would be 2 percent and 4 percent of the total urban population if total consumption basket prices increased by 5 percent or 10 percent, respectively. They estimate that the percentage of people below the destitution line would increase by 1.6 percent and 3.5 percent of the total urban population if food consumption basket prices increased by 5 percent or 10 percent, respectively. This reflects the fact that there is a high concentration of families whose incomes are close to the poverty and destitution lines. Small price increases may

have a significant negative impact on the living standards of these people.

AVERAGE NOMINAL SALARIES

INDEC estimated that average nominal salaries increased 2.61 percent in January 2004 over December 2003, whereas inflation was 0.4 percent during that period. The average nominal increase was due to increases of 4.2, 0.8 and 0.2 percent for salaries of private sector formal employees, informal employees, and public employees, respectively. Salaries of private sector formal employees increased more than other salaries due to Decrees 392/2003 and 1347/2003. Decree 392/2003 established an ARP 224 (USD 77.24) raise in minimum wages in eight monthly installments of ARP 28(USD 9.65) beginning in July 2003. Decree 1347/2003 established an additional ARP 50(USD 17.24) salary increase in January 2004.

Salaries grew by 11.3 percent between January 2003 and January 2004. This increase is mainly due to increases of 16.6 percent, 11.4 percent and 1.3 percent in formal private sector, informal private sector and public salaries, respectively, for that period. Therefore, the purchasing power of salaried workers in January was on average 8.4 percent higher than what it was in January 2003.

WHOLESALE PRICE INDEXES

The Wholesale Price Index (IPIM) increased 1.3 percent during February 2004, bringing the total IPIM change since February 2003 to 2.07 percent. This index measures the price changes of national products (including Primary Products and Manufactured Goods and Electric Power) and imports sold in the domestic market. The IPIM also includes taxes. IPIM national product prices increased 1.3 percent in February. This was due to a 1.7 percent increase in Primary Product prices and a 1.2 percent

increase in Manufactured Goods and Electric Power. Import prices increased 0.9 percent.

The Wholesale Basic Prices Index (IPIB) has the same coverage as the IPIM. However, the IPIB does not include taxes. The IPIB increased 1.3 percent in February, bringing the total IPIB increase since February 2003 to 1.9 percent. IPIB national product prices rose 1.4 percent in February. This was due to a 1.4 percent increase in Primary Product prices and a 1.2 percent increase in Manufactured Goods and Electric Power. Import prices rose by 0.9 percent during the same period.

The prices for the sectors measured in the IPIM and IPIB are weighted using the corresponding value of product net of exports. INDEC has devised another index, the Basic Prices to Producers Index (IPP), whose weights are calculated considering sales in the internal market as much as sales to the external market and excluding imports and taxes. The IPP rose 1.3 percent in February, bringing the total IPP increase since the February 2003 to 3.1 percent. Primary Products and Manufactured Goods and Electric Power increased 1.6 and 1.2 percent, respectively, in February.

CONSTRUCTION PRICES

The INDEC index measuring private housing construction costs in Greater Buenos Aires increased 1.9 percent during February 2004. These costs were 12.7 percent higher than those prevailing in February 2003. This monthly rise is the result of a 1.8 percent increase in the cost of materials, a 2.4 percent jump in the cost of labor and a 0.7 percent growth in other construction costs. Wages of salaried employees working for the sector rose 5.6 percent due to the ARP 28 (USD 9.65) established by Decree 392/2003, and the ARP 50 (USD 16.95) increase established by Decree 1347/2003. Payments to the self-employed increased 0.3 percent. Professional fees are not included among the labor costs considered by INDEC in the construction sector.

INFLATION PREDICTIONS FOR 2004

The GOA's official 2004 inflation projection in the 2004 budget bill is 10.5 percent. The Central Bank's inflation target ranges between 7 and 11 percent for the year. According to BCRA's survey on market expectations, published on March 3, CPI inflation will be 0.6 percent in March, and 7.1 percent in 2004. This study takes into account the inflation forecasts made by 51 local and international analysts.

CPI inflation predictions for 2004 by 12 well-known think tanks average 7.1 percent, down from 7.3 percent a month ago. Inflation for 2004 may be powered by the adjustment in public utility tariffs, fuel prices such as gasoline and GNC, and pressure for public sector salary increases. However, the GOA can be expected to resist public utility tariff, fuel and public sector salary pressures, and no increases are expected during the first quarter of 2004. The increase in wholesale prices relative to consumer prices raises pressures to adjust profit margins in the retail sector.

COMMENT

The GOA calculated that 54.7 percent of the population lived below the poverty line and 26.3 percent of the population lives below the destitution line in May 2003. Small increases in the cost of living can have a profoundly negative impact on large sectors of the population. This is one of the reasons why the Kirchner government has so far resisted increases in public utility tariffs and fuel prices. However, recent monetary expansion resulted in a small depreciation of the peso, which probably will affect prices of basic consumer goods and would therefore increase poverty and destitution. INDEC will release October 2003's poverty figures on March 25.